

MARKET CONDUCT EXAMINATION REPORT
AS OF DECEMBER 31, 2002

Central States Health and Life Co. of Omaha
1212 North 96th Street
Omaha, NE 68114

NAIC Group Code: 690
NAIC Company Code: 61751
Colorado Company No.: 107

EXAMINATION PERFORMED
for the
STATE OF COLORADO
DEPARTMENT OF REGULATORY AGENCIES
DIVISION OF INSURANCE

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**Central States Health and Life Co. of Omaha
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Omaha, NE 68114**

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EXAMINATION REPORT
as of
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Examination Performed by

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Independent Market Conduct Examiners

July 9, 2003

The Honorable Doug Dean
Commissioner of Insurance
State of Colorado
1560 Broadway, Suite 850
Denver, Colorado 80202

Commissioner:

A market conduct examination of Central States Health and Life Co. of Omaha was conducted in accordance with and pursuant to §§10-1-203 and 10-3-1106, Colorado Revised Statutes. This examination focused on the Company's credit disability and credit life insurance business, involving a review of underwriting, rating, policyholder service, marketing, sales and claims practices. The Company's records were examined at their offices located at 1212 North 96th Street Omaha, NE 68114.

The time period covered by the examination was from January 1, 2002 through December 31, 2002.

The results of the examination, herein, are respectfully submitted.

Stephen E. King, CIE

Jo-Anne G. Fameree, FLMI, AIRC, ACS

**MARKET CONDUCT
EXAMINATION REPORT
OF
CENTRAL STATES HEALTH AND LIFE CO. OF OMHA**

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COMPANY PROFILE

Central States Health and Life Co. of Omaha (“CSO” or the “Company”) was licensed and began operations in Colorado on March 01, 1941. CSO is authorized to write Accident & Health, Annuities, Credit (Life, A&H), General Life and Variable Contracts in Colorado.

COMPANY OPERATIONS AND MANAGEMENT

Central States Health and Life Co. of Omaha is licensed in forty-nine (49) states and Guam. This includes the authority to offer credit life and credit disability products. CSO has products approved for use in forty-four (44) states and Guam and currently actively markets in over thirty-five (35) of those states.

For the year 2002, the Company reported \$3,213,704 in direct written premium for it’s credit life insurance business, which represents a .04% market share of the overall business of life and annuity companies in Colorado. The Company also reported \$3,314,832 in direct written premium for it’s credit disability business, which represents a .15% market share of accident and health business in Colorado that was sold by life, property, HDMI or fraternal companies.

PURPOSE AND SCOPE OF EXAMINATION

Independent Examiners, contracting with the Colorado Division of Insurance (DOI), in accordance with Colorado Insurance Law, Sections 10-1-201, 10-1-203 and 10-1-204.C.R.S., which allows the Commissioner the discretion and authority to schedule and conduct examinations for the purpose of auditing business practices of insurers, reviewed certain business practices of Central States Health and Life Co. of Omaha. The findings in this report, including all work products developed in the production of this report, are the sole property of the Colorado Division of Insurance.

The purpose of the examination was to determine the Company's compliance with Colorado insurance law and generally accepted operating principles related to credit insurance laws. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record. The preceding statements are not intended to limit or restrict the distribution of this report.

Examiners conducted the examination in accordance with procedures developed by the Colorado Division of Insurance, based on model procedures developed by the National Association of Insurance Commissioners. Examiners have relied primarily on records and materials maintained by the Company. The market conduct examination covered the period from January 1, 2002, through December 31, 2002.

The examination included review of the following:

- Company Operations / Management
- Marketing and Sales
- Complaints
- Producers
- Underwriting - Forms / Policyholder Services
- Underwriting - Rating
- Underwriting - Applications
- Underwriting - Cancellations
- Claims

This examination report is a report written by exception. References to any practices, procedures or files, that contained no improprieties, were omitted. Therefore, the majority of the material reviewed may not be addressed in this report. In the course of the review, Examiners provided the Company Examination Memorandums and Comment Forms to obtain information, ask questions and address noted discrepancies. The comment form contains a section that allows the Company to provide a written response to the examiners' questions/comments.

An error tolerance level of plus or minus ten dollars (\$10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from the Company's established policies, procedures, rules and/or guidelines.

**Market Conduct Examination
Purpose and Scope**

**Central States Health and Life Co.
of Omaha**

An error tolerance level of 5% was established, to determine reportable exceptions. However, when an issue appeared to be systemic or when due to the sampling process it was not feasible to establish an exception percentage, an error tolerance level percentage was not utilized.

Examination findings may result in administrative action by the Division of Insurance. During the course of the examination, all unacceptable or non-complying practices of the Company may not have been discovered. Failure to identify specific Company practices, however, does not constitute acceptance of such practices. This report should not be construed to either endorse or discredit any insurance company or product.

EXAMINERS' METHODOLOGY

In accordance with Section 10-1-203, Colorado Revised Statutes, examiners reviewed the Company's business practices to determine compliance with Colorado insurance laws and regulations, as they pertain to life and health insurance companies, as shown in the following exhibit.

Exhibit 1

Law/Regulation	Concerning
Section 10-1-108	Duties of Commissioner – reports – publications – fees – disposition of funds - adoption of rules.
Section 10-1-109	Rules and regulations of commissioner
Section 10-1-111	Grounds and procedure for suspension or revocation of certificate or license of entities.
Section 10-1-127(6)(a)	Anti-fraud Plan
Section 10-2-1001 through 10-2-1101	Managing General Agent Act
Section 10-2-103	Licenses - General Provisions - Definitions
Section 10-2-401 through 10-2-417	Licenses – Licensing and Appointment of Insurance Producers
Section 10-2-701 through 10-2-704	Licenses – Business Conduct of Licensees
Section 10-3-105	Certificate of Authority
Section 10-3-109	Reports, statements, assessments, and maintenance of records - publication - penalties for late filing, late payment, or failure to maintain.
Section 10-3-1101 through 10-3-1104	Unfair Competition – Deceptive Practices
Section 10-7-112	Interest payable on benefits or proceeds
Section 10-10-101 through 10-10-119	Credit Insurance
Regulation 1-1-7	Market Conduct Record Retention
Regulation 1-2-9	Fees Charged by Agents/Brokers
Regulation 2-1-7	Concerning Issuance of a Certificate of Authority
Regulation 4-9-2	Credit Insurance
Regulation 6-2-1	Complaint Record Maintenance
Regulation 6-2-2	Responses to Division Inquiries Regarding Complaints

Company Operations / Management

Examiners verified the Certificate of Authority and reviewed Company management, administrative controls and record retention. Additionally, the Company's cooperation during the course of the examination was noted.

Marketing and Sales

Examiners reviewed the Company's advertising review and approval process along with a systematic sampling of the advertising and sales material approved by the Company for use in the State of Colorado. These materials were reviewed to verify compliance with the Colorado laws and to determine if the Company accurately represented its products. The sample included three (3) general credit insurance advertisements and forty-five (45) out of a total of 231 advertisements for the combined credit insurance packages sold by the Company. These packages include both the credit life and credit disability products offered by the Company. The Company was unable to provide two (2) of the advertisements that Examiners requested for review.

Complaints

Examiners reviewed and compared the Company's complaint register to the register maintained by the Division of Insurance, to verify accuracy. Additionally, the Company's complaint handling procedures were reviewed. Examiners reviewed both division complaint files and consumer complaint files.

Producers

Examiners verified producer records to ensure producers soliciting business in the state of Colorado were properly licensed. The Company's producer commission listing was reviewed and licensing was verified by conducting an agent search on the Colorado Division of Insurance website.

Underwriting – Forms / Policyholder Services

Examiners reviewed all of the forms that the Company provided, during the course of the examination, to determine compliance with Colorado insurance laws.

Underwriting - Rating

Examiners systematically selected a sample of 100 new business single premium files from a population of 12,304 files and 100 new business credit card files from a population of 11,221. These files were reviewed to ensure proper handling and verify that the Company's filed rates were properly and consistently applied.

Underwriting – Applications

The Company utilized medical underwriting on a limited basis for the single premium business, when the coverage applied for exceeded the Company's base coverage allowance. Examiners reviewed the Company's online underwriting system, along with all thirty-four (34) of the Company's rejected files, to ensure that the Company had fairly and consistently applied the medical underwriting standards.

Underwriting – Cancellations

Examiners systematically selected a sample of 100 cancelled credit life and credit disability files, from a population of 8,082. Examiners reviewed these files to ensure accurate and timely processing of the premium refund.

Claims

Examiners systematically selected a sample of fifty (50) paid credit disability claims, from a population of 510 and a sample of fifty (50) paid credit life claims, from a population of 154. In addition, Examiners selected all thirty-seven (37) denied credit life claims and all forty-one (41) denied credit disability claims. Examiners reviewed the Company's claims handling guidelines and claim information, to determine timeliness of processing and accuracy of payment.

EXAMINATION REPORT SUMMARY

The examination resulted in a total of one (1) finding in which the Company was not in compliance with Colorado Statutes and Regulations. The following summarizes Examiner findings.

Company Operations / Management: In the area of Company Operations / Management, no compliance issues or concerns were identified and thus are not addressed in this report.

Marketing and Sales: In the area of marketing and sales, no compliance issues or concerns were identified and thus are not addressed in this report.

Complaints: In the area of complaints, no compliance issues or concerns were identified and thus are not addressed in this report.

Producers: In the area of producers, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting - Forms / Policyholder Services: In the area of forms, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting - Applications: In the area of applications, no compliance issues or concerns were identified and thus are not addressed in this report.

Underwriting - Cancellations: In the area of cancellation refunds, no compliance issues or concerns were identified and thus are not addressed in this report.

Claims: Examiners found one (1) area of concern in their review of paid and denied claims. Examiners identified the following issue:

- Failure to apply interest to death benefits.

A copy of the Company's response, if applicable, can be obtained by contacting the Company or the Colorado Division of Insurance.

Results of previous Market Conduct Exams are available on the Colorado Division of Insurance's website at www.dora.state.co.us/insurance or by contacting the Colorado Division of Insurance.

MARKET CONDUCT EXAMINATION REPORT

FACTUAL FINDINGS

CENTRAL STATES HEALTH AND LIFE CO. OF OMAHA

<p><u>CLAIMS</u> <u>FINDINGS</u></p>
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Issue J1: Failure to apply interest to death benefits.

Section 10-7-112 C.R.S., Interest payable on benefits or proceeds, states in part:

- (1) Notwithstanding any other provision of law, each insurer admitted to transact the business of life insurance in this state *shall pay interest on the death benefits* [emphasis added] using an interest rate that is not less than the rate of interest for proceeds left on deposit with the insurer and subject to withdrawal on demand for the period *beginning at the date of death through thirty days following the date of receipt by the insurer of a complete request for payout including due proof of death* [emphasis added]. From that date until the date of settlement of the claim, the annual rate of interest shall be two percentage points above the federal discount rate, which rate shall be the rate of interest a commercial bank pays to the federal reserve bank of Kansas City using a government bond or other eligible paper as security and shall be rounded to the nearest full percent. If the claim is denied and a judgment is rendered against the insurer, the annual rate of interest from the date the action was filed until payment of the claim shall be four percentage points above the federal discount rate, except to the extent such proceeds were deposited with the court in an interpleader action. Any other life insurance policy or contract benefits shall accrue interest at a rate of at least two percentage points above the federal discount rate when any such benefits are not paid more than thirty days after the date of receipt by an insurer of a complete request for payment from an insured.

Paid Credit Life Claims

Population	Sample Size	Number of Exceptions	Percentage to Sample
154	50	50	100%

Fifty (50) of 154 paid credit life claims were reviewed. The review revealed exceptions in all fifty (50) files, representing 100% of the sample. The following provides an explanation of the noted exception.

It appears that the Company is not in compliance with Colorado insurance law in that in all fifty (50) instances, the Company failed to apply interest to benefits from the certificate-holders date of death until the date benefits were actually issued. The total amount of interest that appears to be owed by the Company for the claims reviewed was \$3,460.46.

Recommendation No. 1

Within 30 days, the Company should provide documentation demonstrating why it should not be considered in violation of Section 10-7-112 C.R.S. In the event the Company is unable to show such proof; it should provide evidence to the Division of Insurance that it has implemented procedures to ensure that payment of credit life claims includes the appropriate amount of interest as required by Colorado insurance law. The Company should work with the Division of Insurance to ensure that any unpaid interest is paid to the estates of any deceased certificate holders.

SUMMARY OF ISSUES AND RECOMMENDATIONS

ISSUES	Rec. No.	Page No.
CLAIMS		
Issue J1: Failure to apply interest to death benefits.	1	15

Independent Market Conduct Examiners

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